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Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER

APRIL 1, 1991

DESIGNS FROM THE SOUTH

The Sunbelt's Best Sellers...56
Effective Public/Private Partnerships...70
Successful Remodeling Project Ideas...80
New Bath Product Introductions...94
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APRIL 1, 1991 • PROFESSIONAL BUILDER & REMODELER • DESIGNS FROM THE SOUTH

Professional Builder® & Remodeler

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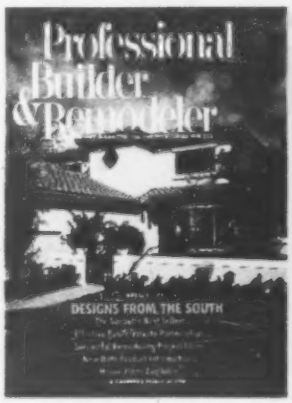

On The Cover

■ The Santa Barbara model brings a California design flavor to Boca Raton, Fla. Builder Don Alexander of Marlex Housing along with Ahmanson Development brought the entire design team from California: Architects were Lorimar-Case and Bassenian/Lagoni; models were merchandised by Parisi Interiors; landscaping was handled by L.A. Group. Photography by Tom Knibbs.

Best-selling new homes from the South: p. 56.

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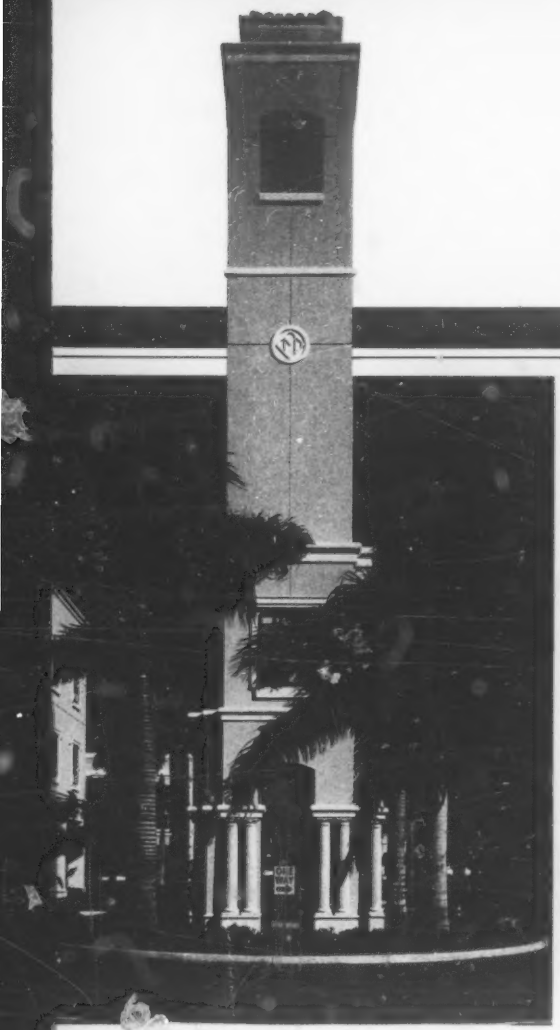

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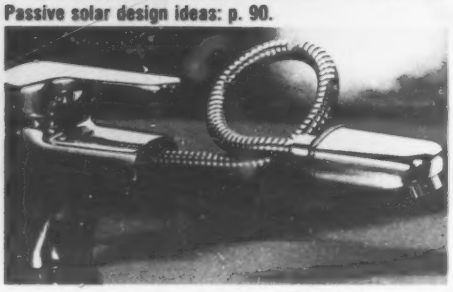

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■ Creative incentive programs can drive sales in slow times. Here are some unique financing packages that builders have put together in recent months: *p. 12.*

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■ Former Builder of the Year Geoie Writer plans a second comeback. His message is particularly apt for builders today—focus on fundamentals: *p. 25.* Fire damage helps ignite a dramatic new design (and saves the owners a bundle) in San Diego: *p. 30.*

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■ Sometimes, selling a luxury home can require careful "orchestration" to put prospects in the buying mood: *p. 37.* The "work-at-home" market is becoming a widening niche for builder/remodelers: *p. 38.*

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■ A task force is busy at work to determine how defective FRT plywood claims will be paid: *p. 87.* A room addition on a tough site is warmed by passive solar technology: *p. 90.*

Next Issue

■ In the April 15th issue: Custom luxury homes, plus profiles of outstanding landscaping designs. Also included are new house plans, a look at the lead paint crisis and new developments in workers' compensation.

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Ammunition For A 'Buy Now' Campaign In Your Market

By Roy L. Diez,
Vice President,
Editorial Director

The gradual return of American troops after the successful and swift conclusion to the war in the Persian Gulf has given a needed boost to consumer confidence. For home builders, the time to capitalize on that enthusiasm is now.

It's time to get off the defensive and go on the offensive. Buyer incentives may still be appropriate as a closing hook, but you should now add an aggressive "Buy Now" flavor to your marketing campaigns. Here's some ammunition:

Housing is now more affordable.

Due to a stabilization in new home prices, declining interest rates and increases in family income, housing affordability has improved significantly in recent months.

At war's end, the Housing Affordability Index of the National Association of Realtors stood at 114.4. In other words, a family earning the national median income of $35,700 had 114.4% of the income needed to qualify for conventional financing with 20% down on a median-priced $94,200 home. This was one of the highest readings in more than 13 years.

Housing is, indeed, a good investment.

Owning a home is now just about the only tax shelter left for the average American. Both the interest on a home mortgage and the real estate taxes on a new home are still tax deductible.

Deductibility of mortgage interest rates, in fact, means that the homeowner actually pays less in interest than the actual mortgage rate of their home loan. As shown in Chart 1, Chicago Title and Trust Company has computed this difference based on 1991 tax rates for a married couple filing a joint return.

Housing appreciates.

Remind potential buyers that a new home can still be counted on to appreciate in value. Home prices have not entered free-fall, as some of the consumer press would have them believe.

In another recent study, NAR has documented significant, long-term housing appreciation in most markets across the country. The study tracks resale-home price results over the past seven years (1983-1990) in some 52 metro areas and shows substantial gains in all but three (all in the Oil Patch states) of the markets. Chart 2 shows some of these markets.

Even the two coasts, where media hype about declining prices has been strongest, have fared well.

Effective Mortage Rates

Taxable Income	Mortgage Rate 8%	9%	10%
$20,000	7.0%	7.5%	8.5%
$30,000	7.0%	7.5%	8.5%
$35,000	6.5%	7.5%	8.0%
$45,000	6.0%	6.5%	7.0%
$60,000	6.0%	6.5%	7.0%
$85,000	5.5%	6.5%	7.0%

Home Appreciation

Metro Area	% Change
Albany/Troy, N.Y.	116.4%
Atlanta	36.9%
Boston	110.9%
Charlotte, N.C.	45.9%
Chicago	53.9%
Cincinnati	39.5%
Dallas	10.6%
Denver	10.3%
Detroit	60.2%
Ft. Lauderdale, Fla.	25.3%
Hartford, Conn.	93.7%
Las Vegas	24.0%
Los Angeles	79.0%
Memphis, Tenn.	26.8%
Minneapolis	20.5%
New York	96.3%
Orange Co., Ca.	81.7%
Orlando, Fla.	28.6%
Sacramento, Ca.	81.8%
San Diego	85.0%
San Francisco	93.9%
St. Louis	36.5%
Tampa, Fla.	29.0%
Washington, D.C.	68.0%

Roy L. Diez

■ MONEY

Building: Is It A Shelter Business Or An Investment Business?

By Allan G. Bortel, Chartered Financial Analyst, Vice President, Sutro & Co.

Case Study: You've sold 20 homes, out of 40 planned, for a particular subdivision during the good old days between 1988 and early 1990. The average sale price was $250,000.

It is now 1991, and those same homes are bringing no more than $200,000. That's the market price for the next 20 homes you plan to build, as well as the market into which your previous customers could possibly resell. You must hope that those customers were satisfied with your product and aren't planting signs with lemons on them in their front yards because your punchlist wasn't punched right.

Justifying an economic loss (although on paper) is never easy when the home you have delivered has not held its value over a very short period of time.

Justifying an economic loss (although on paper) is never easy when the home you have delivered has not held its value over a very short period of time. This phenomenon is currently being experienced in California, having spread from the Northeast. When this kind of event occurred in Texas in the mid-1980s, it was more explainable because the price of oil had collapsed, bringing down the job market as well as real estate prices. Builders could hide from their old customers because they were not alone in experiencing the depression affecting the area.

But what does the Northeast or California builder do to keep those first customers happy and justify their new homes at today's (unfortunately) lower economic value? There are (believe it or not!) a few things you can tell them. The most obvious is that your customer might obtain a property tax assessment review. You can assist by furnishing the telephone number of the local county assessor and your customer's lot number (which the average homeowner usually doesn't know).

The case that will have to be made with the assessor's office is that sale prices of nearby homes have been lower, as of the snap-shot date at which property values are determined (a state law). Appeals for lowering assessed valuations, in some instances, may go higher than the local assessor's office. In fact, for those who do not want to be bothered, there are companies that charge about $200 for handling reassessments, preparing the documentation and filing the appeal.

All this is just part of the realization, humbling though it may be, that builders are in the shelter business and *not* the investment business.

A point made in my February 1 column needs clarification. Construction loans made by S&Ls for 1-4 family homes require *twice* as much capital behind them as loans for existing homes.

Model Traffic Remains Low

According to the latest builder panel survey, confidence in the market, which was at very depressed levels this summer, is tipping up slightly. However, the *PB&R* and Owens-Corning Fiberglas survey also indicates that home buyer interest remains at very low levels. In January, 90% of builders said that model traffic was the same or less than a year earlier.

In the next three months, do you think that new housing/remodeling business in your area will be:

	Jan. 1990	July 1990	Jan. 1991
Better?	48%	24%	29%
Worse?	10%	13%	15%
Same?	42%	63%	56%

Source: Owens-Corning/PB&R Contractor "Tracker" Study.

Pulte Plans European Sales

National housing giant Pulte Home Corporation, with U.S. annual sales in excess of $1 billion, plans to register a few future sales in pounds, francs and deutsche marks.

Pulte recently announced Florida Homes (U.K.) Ltd.—which pioneered sales of Florida properties in Great Britain—as its exclusive sales and marketing agent in Europe. The firm will develop markets for Pulte from its Cambridge sales and information center.

The effort will concentrate on promoting Pulte's Florida division, with communities in Orlando, Delray Beach and Palm Beach Gardens. □

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INDICATORS

Home Sales Plunge During 1990

Existing single-family home sales are off only 4.3%; new home sales fare much worse.

While much attention is focused on housing starts as an indication of the relative health of the residential construction market, it is only part of the story. For the rest, we look toward information on actual home sales.

For the second straight year, total single-family home sales declined during 1990. A combined total of 3,829,000 new and existing homes were sold last year—the lowest annual total since 1984. Existing home sales were off 4.3% for the second year in a row, while new-home sales were down a much sharper 17.5%.

The fact that existing home sales resisted this kind of free-fall buffered remodelers from the full effects of the devastating drop in new home construction and new home sales activity. Preliminary indications are that total consumer spending on improvement and upkeep work actually rose slightly.

We see single-family home sales bottoming out by midyear, helped by lower mortgage rates, builder incentives and improved consumer confidence. Total 1991 sales should be at, or only slightly below, last year's level, and more substantial improvement should be seen in 1992. □

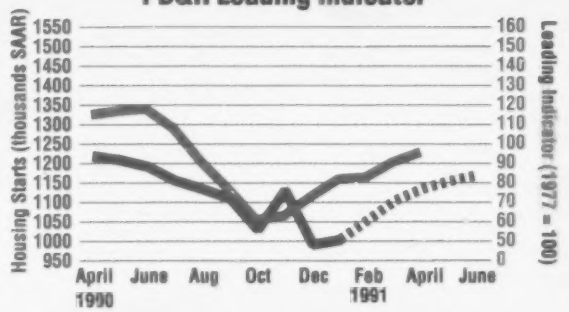
Remodeling Spending Slowed By End Of '90

The pace of spending on home improvement projects (additions, alterations and major replacements) peaked during the first three months of 1990 at an annualized rate of $64.7 billion. Maintenance and repair spending peaked at a level of $53.1 billion, annualized, during the second quarter of the year. A debilitating uncertainty about the nation's economic and political near-term future took hold at midyear.

After continued weakness in the first three or four months of this year, remodeling spending should gradually increase as the year progresses. Improving consumer confidence and lower financing rates should stimulate demand for remodeling work, although total real, inflation-adjusted 1991 spending will be level with, or only slightly above, the disappointing 1990 total. □

By Daryl Delano, Cahners Economics

PB&R Leading Indicator



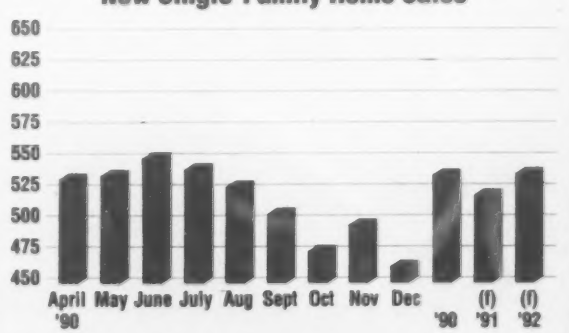
Broken line denotes forecast. Leading indicator of housing predicts short-term changes in residential construction over approximately the next quarter. Latest figure is based on April data and includes the Standard and Poor's 5-b stock index, 90 day T-bills, bank reserves, consumer confidence index and the ratio of homes for sale to those sold. Prepared exclusively for PB&R by Cahners Economics.

Regional Market Conditions
(Year-To-Date Trends)

	S-F Home Permit $	Average S-F Permit Value	Remodeling Permit $	Employment Change
New Haven	-36.4%	$90,210	-20.7%	-3.1%
Trenton	-38.9%	$91,628	-5.2%	-0.3%
Jacksonville	-8.4%	$76,559	-0.2%	+2.5%
Jackson, Miss.	-12.9%	$68,636	+4.0%	+1.1%
Oklahoma City	+4.9%	$87,291	+13.3%	+0.4%
Cleveland	+0.2%	$139,532	+3.5%	+1.8%
Wichita	-6.7%	$70,327	-1.0%	+0.8%
Reno	+26.4%	$103,712	+21.0%	+2.5%
Oakland	-40.2%	$136,653	+7.7%	+3.0%

Sources: U.S. Departments of Commerce and Labor.

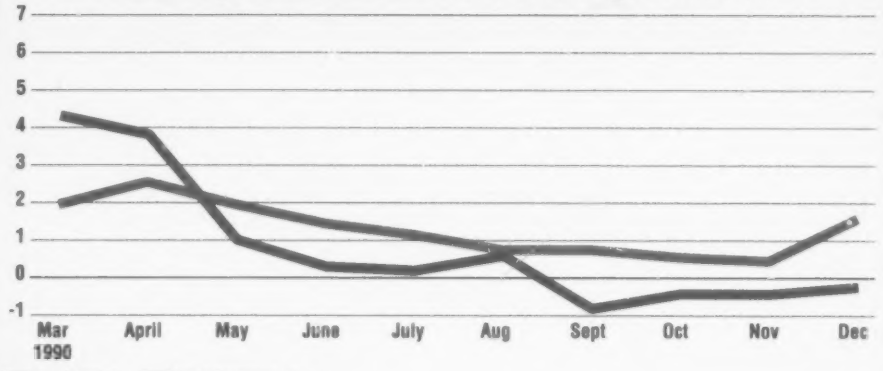
New Single-Family Home Sales



Data reflect seasonally adjusted annualized rates, in thousands.
Source: U.S. Department of Commerce. Forecast by Cahners Economics.

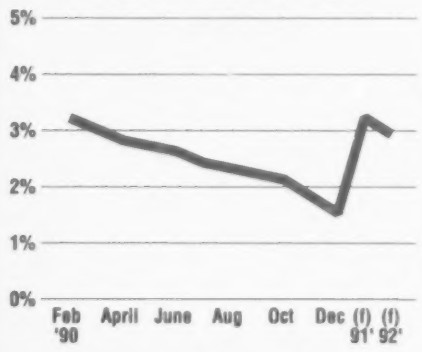
INDICATORS

Remodeling Permit Trends: Residential & Light Commercial



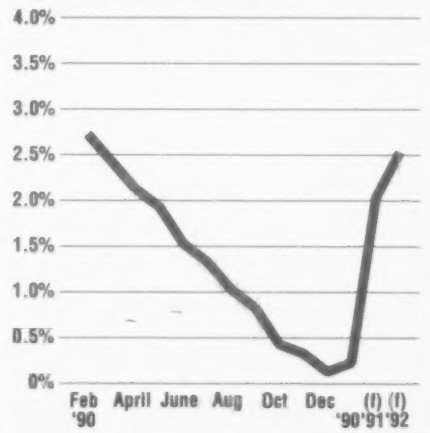
Data reflect percent change in 12-month moving totals.
Source: U.S. Department of Commerce.

Construction Labor Costs



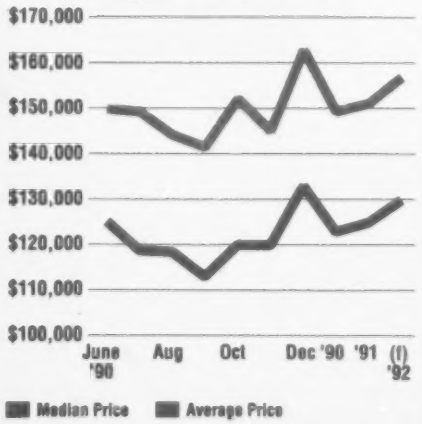
Data reflect over-the-year change in average hourly earnings.
Source: U.S. Department of Labor. Forecast by Cahners Economics.

Construction Materials Prices



Data reflect over-the-year change in Producer Price Index.
Source: U.S. Department of Labor. Forecast by Cahners Economics.

Sales Prices Of New Single-Family Homes



Source: The Conference Board. Forecast by Cahners Economics.

Key Trends At A Glance

	Dec 1990	April 1990
Total housing starts*	987	1216
New home sales*	463	533
Remodeling permit trend	+1.9%	+3.4%
Consumer confidence index**	61.2	107.3
Median price of new home***	$133	$130
Fixed-rate mortgages	9.67%	10.37%
Construction wage trend	+1.5%	+2.8%

* Seasonally adjusted annual rate in thousands.
** 1985 = 100.
*** In thousands.

1990 New Home Construction Grew In Some Areas

We've looked at the top metropolitan areas for new residential construction in 1990, by dollar value of permitted construction work. A few common threads connect many of the areas represented in this analysis (limited to the 100 largest metropolitan areas in the country). Most are "second-tier" relatively smaller cities and, therefore, relatively more affordable housing markets than formerly high-growth areas in the Northeast and on the California coast. These include the California cities of Redding, Visalia, and Bakersfield; Tacoma and Vancouver, Wash.; plus Reno, Des Moines, Salt Lake City and Boise—all are in the "Top Twenty."

Some are bouncing back from the depths of a severe housing recession (Dallas and Austin, Texas), while others have benefited from decidedly negative events (building and rebuilding taking place in the aftermath of Hurricane Hugo—South Carolina cities—and the San Francisco Bay area earthquake).

In a year in which residential new construction values fell by a sharp 14.1%, these strong growth areas were the welcome exceptions to the rule. Not coincidentally, employment growth was much stronger than the U.S. average in most of these areas as well—led by Charleston S.C., Boise, Columbia, S.C., and Portland—a fact that created demand for new and remodeled housing. □